



Journal of the CPA Practitioner

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UPDATE...FROM THE NCCPAP PRESIDENT



ANDREW L. HULT, CPA

This is my last President's message. The Nominating Committee released its proposed slate of officers and directors. The proposed slate is listed on page 2. We will be asked to vote on it in the near future.

The Board of Directors voted to establish a new NCCPAP chapter in the Delaware Valley. "Congratulations" and "Welcome" to our new members. Special thanks go to Ed Caine, whose verve and tenacity made this happen. Congratulations also go to Karen Giunta, our former President. She has just been asked to sit on the

AICPA's Council.

The Issues Committee has taken a position supporting the AICPA's efforts to establish a separate set of accounting standards for private companies. Special thanks go to Bob Goldfarb for his leadership in this crucial committee and in many other areas.

The Tax Committee has responded to the IRS's request for recommendations as to how to conduct the forthcoming tax preparation competency tests for registered tax preparers. Again, we thank Neil Fishman for his leadership as Chair of this very demanding committee.

At the beginning of August, the Education and MAP Committees combined to put together the best quarterly meeting I have ever attended. I would run out of superlatives before doing justice to the wonderful work that Paula Sheppard (Education) and Ken Hauptman (Management of Accounting Practice) have done.

The Technology Committee has "gone live" with our new website. It is a remarkable improvement. So many people have contributed so much in this area. Don Ingram, Chair, Lana Kupferschmid, Ed Caine, and David Rothfeld deserve special mention.

I also wish to thank Bob Markman, Chair of the By-Laws Committee, Carol Markman, Chair of the Public Relations Committee, Frank Gallo, Chair of the Peer Review Committee and Barry Zalk, Chair of Ethics, for their sturdy efforts.

There's more. I thank Lana Kupferschmid again, for her unceasing support in her role as Executive Vice President, and Ken Hauptman, again, for his exceptional work as Treasurer. I also must thank Sandy Zinman for his leadership as Chair of the Council of Chapter Representatives, and Frimette Kass, for her direction as Editor of the Journal of the CPA Practitioner. Last but far from least, I thank Holly Coscetta for her energy, support, wisdom, humor and effectiveness as Executive Director.

There are some possible developments that you should know about. They haven't happened yet. They might not happen but people are actively working to make them real.

The Tax Symposium is considering a one-day webcast. If it proves feasible, it could be made available to chapters in Massachusetts, Delaware Valley, and Florida. The possibility has me very excited, but many details have to be resolved if it is to come to be.

Also, the Board has made a renewed commitment to the NCCPAP's Peer Review Administration program. This promises to be a very important upgrade

(continued on page 2)

You're invited!

**NCCPAP
33rd ANNUAL
CONFERENCE**

**Wednesday, October 26, 2011
Thursday, October 27, 2011
Friday, October 28, 2011**

**HILTON
Woodcliff Lake, New Jersey**

**Make Your Reservations Now—
prior to October 4th
when block of rooms will be released**

For hotel reservations,
call (201) 391-3600
NCCPAP rate: \$149 single/double

Mark Your Calendars!

NCCPAP WINTER CONFERENCE

**Wednesday, January 4, 2012
Thursday, January 5, 2012
Friday, January 6, 2012**

RENAISSANCE, Boca Raton, Florida

in service to many of our members. However, if undertaken, retooling the program will be expensive, and it may be slow. I have heard estimates of \$50,000 to address those areas that need attention. At this point, the major questions concern financing and staffing. Should NCCPAP borrow the funds, possibly from member firms, or should NCCPAP make a one time assessment? A subcommittee has been formed to focus on the business and financing plans.

That's it for now. Thank you for the opportunity to be your President for the past two years. I have strived to live up to the NCCPAP's raison d'être, i.e., "Practitioners helping practitioners." Please give your support to my successor as you have given it to me.

Best regards,

Andrew Hult

Candidates for NCCPAP Officers & Directors 2011-2012

The Nominating Committee has proposed the following slate of candidates for the 2011-2012 term.

OFFICER CANDIDATES

President	Lana Kupferschmid, CPA
Exec. Vice-President	Neil Fishman, CPA
Vice-Presidents	Ed Caine, CPA David Rothfeld, CPA Kenneth Hauptman
Secretary	Lynne Marcus, CPA
Treasurer	Sarah Jansen, CPA

DIRECTOR CANDIDATES

<i>Three Year Term, 2011-2014</i>	Bruce Berkowitz, CPA Frank Gallo, CPA Barry Zalk, CPA
<i>Two Year Term, 2011-2013</i>	Ronald Tockman, CPA

Independent nominations for an Officer or Elected Director may be made by petition filed with the Secretary forty days following the August meeting (September 14th). The petition shall be signed by at least twenty-five members of the Conference, and shall certify that the nominee has consented to serve, if elected. Profiles of independent nominations received prior to September 14th will appear in the next regular issue.

In addition, three of the five voting members of the Nominating Committee are to be elected from membership. Nomination for members of the Nominating Committee, other than members elected by the Board, shall be by petition filed with the Secretary prior to the vote at the Annual Meeting of Member Firms. Each petition shall be signed by at least ten members. The signing members shall certify that the nominee has consented to serve if elected.

2011-2012 Election Ballots will be mailed September 15th. If you are not attending the Annual Meeting in October, be sure to mail your ballot so as to be received in the National Office prior to October 27th.

Profiles of the Candidates — see pages 7-8

NATIONAL CONFERENCE OF CPA PRACTITIONERS, INC.™

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OFFICERS

President	Andrew L. Hult, CPA
Executive VP	Lana Kupferschmid, CPA
Vice Presidents:	Neil H. Fishman, CPA Vito Mastro, CPA Ronald C. Tockman, CPA
Secretary	Ed Caine, CPA
Treasurer	Kenneth Hauptman, CPA
Immed. Past President	Karen P. Giunta, CPA

DIRECTORS

Donald Ingram, CPA
Frimette Kass, CPA
Stuart G. Lang, CPA
Robert Markman, CPA
Harold Ogulnick, CPA
Jay Rosenbaum, CPA
David Rothfeld, CPA
Paula Sheppard, CPA

PRESIDENTS / REPRESENTATIVES TO BOARD

Boston, MA	Ronald C. Tockman, CPA
Delaware Valley	Ed Caine, CPA
Florida	Neil H. Fishman, CPA
Houston, TX	To Be Announced
Long Island East, NY	Charles R. Pegler, CPA
Nassau/Suffolk, LI, NY	Bruce Berkowitz, CPA
New Jersey	Fred Bachmann, CPA
New York City, NY	Jay Rosenbaum, CPA
Westchester/Rockland, NY	Sanford Zinman, CPA

EXECUTIVE DIRECTOR

Holly Coscetta

JOURNAL OF THE CPA PRACTITIONER

Editor-in-Chief	Frimette Kass-Shraibman, CPA
Editorial Board	Carol Markman, CPA Neil Fishman, CPA Alexander K. Buchholz, CPA

NCCPAP PAST PRESIDENTS

2007-2009: Karen Giunta, CPA	1989-1991: Charles W. Newton, CPA
2005-2007: Dennis Scott, CPA	1988-1989: Jerome Fien, CPA
2003-2005: Carol C. Markman, CPA	1987-1988: Edwin Kliegman, CPA
2001-2003: Alan Feldstein, CPA	1986-1987: John Sehr Jr., CPA
1999-2001: Robert Goldfarb, CPA	1985-1986: Eli Mason, CPA
1998-1999: Carole M. Roble, CPA	1984-1985: Irwin Pomerantz, CPA
1996-1998: Herbert Schoenfeld, CPA	1983-1984: John MacMullen, CPA
1995-1996: Theodore Feher, CPA	1982-1983: Sam Fisher, CPA
1993-1995: Mitchell Klein, CPA	1981-1982: Ralph Rehmet, CPA
1991-1993: Peter Ciccone, CPA	1980-1981: Clint Romig, CPA

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Letter from the Editor of *The Journal of the CPA Practitioner*...

I took my CPA review course about 100 years ago. We got out very late and a few of us car-pooled home together. To blow off some steam, while in the car, we wrote the saga of Murray Bernstein, CPA, the world's smallest CPA firm.

Murray's practice was plagued by many problems. He wasn't up-to-date on GAAP or GAAS. His clients gave him a hard time. He lost client files. Tax returns were always late. Nothing ever added up or balanced (these were the days before computerized accounting). Murray was out there all alone and he was always in a state of great frustration. No one listened. No one cared.

While you may not quite be in the state Murray was in, I'm sure you do have some issues with your practice. There is at least one BIG difference. There is someone who cares. There is someone who listens. NCCPAP.

I am the editor of nccpap's journal: *The Journal of the CPA Practitioner*. I'm here to listen to what you need and have the journal respond to (at least some of) those needs. Whenever a potential author asks me, "What type of articles are you looking for?" I say that I am looking for articles that a CPA, in small firm practice, can read today and use tomorrow to help a client or improve his/her practice.

If you also believe that this is what our journal should be, then please help me make it a journal that is useful to you and your colleagues. You can help me by telling me what topics you would like to see in the journal. Also, are you willing to write? I'd like to have articles written by a more diverse group from our membership. Do you always have something to say? How about authoring a column?

Being a journal author has more benefits than just helping your fellow CPAs. Being a published author, you gain prestige among your peers and clients. Your existing and potential clients will be impressed that you have published in a journal of your peers. You may even be able to get CPE credit for writing. (Check with your Board of Accountancy.) I'd like think that by editing and writing for the *Journal of the CPA Practitioner* I'm helping Murray become a better and less frustrated CPA. Won't you please help me?

Frimette Kass, CPA, Ph.D.
Editor-in-Chief

?? Did You Know ??

**Your attendance at a
NATIONAL ISSUES COMMITTEE
and/or
TAX COMMITTEE MEETING
during NCCPAP quarterly meetings
qualifies you for up to
2 CPE credits per meeting —
call the National Office for details.**

**Check out our new look and the
helpful information available on our
National website
www.NCCPAP.org**

Federal Unemployment Tax Act Liabilities

by *Hadley C. Margolis*

Currently there is a 0.2% surcharge on Federal Unemployment. This surcharge has been in effect since the 1970's to cover a shortfall in funding because of high unemployment at that time. The loan was repaid in the '80's, but the federal government has continued to grant extensions to pay for other budget shortfalls.

As of June 30, 2011 Congress has not granted an extension of this surcharge, and as a result, FUTA will go down from 0.8% to 0.6%. This is a full 25% drop, but in dollars it's only a maximum per employee of \$14.00.

As with many things the federal government does, it gives with one hand and takes with another. The savings to the employer is offset by the additional work the CPA's, payroll companies and government agencies have to deal with. The 940 will have to be changed to accommodate two different rates during the year.

As many of you might be aware, many states are being crushed by a large burden of unemployed people. They can currently collect for approximately 99 weeks, which has greatly depleted the coffers of the individual states. Many individual states then borrowed funds from the federal government. The federal government currently requires that the monies be returned by November or a surcharge of 0.3% is added to that state's FUTA rate. Currently 22 states have borrowed money from 2009 or earlier and have until this November to pay back the borrowed funds. In 2010 three states were unable to pay back and had surcharges added to their employers, Michigan, Indiana and South Carolina.

Some of you might recall that in the early 90's we had this issue with a few states, including New York state. There is a proposal on the table to suspend the repayment until the economy improves. There is also talk of raising the FUTA wage base to \$15,000 from its current \$7,000. There is also a possibility that at a later day Congress will extend this 0.2% surcharge retroactively.

Here is some recent tri-state news that may be of importance to you: New requirements for New York state go into effect 7/15/2011. As of July 15th the legislation requires employers to report if dependent health insurance benefits are available to an employee when reporting newly hired or rehired employees under the New Hire Reporting Program. This information is also required on the quarterly NYS45 return.

Connecticut has announced a retroactive tax increase for personal withholding effective 1/1/2011. New tax tables will go into effect 8/1/11 and catch-up requirements might be needed. Stay tuned.

Hoping everyone has had a great and a prosperous summer.

*Hadley Margolis is CEO of Best Payroll Services.
He can be reached at Hadley@bestpayroll.net.*



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When Will We Learn?

by Armando D'Accordo

The first thing I think of when disaster strikes are the people. The earthquake in Japan was a natural disaster, and the people and the loss of life came to mind initially. However, when disaster strikes, be it from Mother Nature or terrorism, the role I play as a trusted business advisor forces me to think about the readiness of businesses and people to survive, and thrive after a disaster. The importance of disaster recovery plans and readiness checklists are becoming well chronicled; yet many people still do not properly prepare. That lack of preparation can have a tremendous impact on their lives and businesses, as well as the economy. Overall, Japan is one of the world's most well-prepared countries in the world, yet many businesses there will never recover from this tragedy because they simply were *not prepared enough*.

And hence the question: When will we learn?

Whether it's a power outage, equipment failure, natural disaster, human error, or act of terrorism — 'stuff' happens, and sometimes the results are out of our control. Similarly, it is also important to remember that someone else's disaster can affect you as well. Of those businesses that experience a disaster and have no emergency plan, 43% never reopen. Of those that do reopen, only 29% are still operating two years later. It is therefore essential to consider the risks and rewards of a comprehensive disaster recovery plan.

Smart business owners and IT professionals will start their thinking with the recovery process. The success of a company's response to adversity is directly proportional to its level of preparedness. Without an appropriate contingency plan, the long-term survival of a business is directly threatened. As an IT professional, I want to help inform you about what you could be doing differently to ensure that your business is fully prepared. Primarily, we urge people to follow the RULE OF THREE:

1. Centralize your file storage (preferably on a server)
2. Use an external backup device on site
3. Take advantage of off-site data backup services

There is also a difference between abiding by the RULE OF THREE and doing so to the fullest. Consider these two true stories to see where your business fits in.

Alex's company did not have a disaster recovery plan in place but believed they were following the Rule of Three. The business had placed an external backup device on top of their server, and only a few feet away was a place for additional backup. Data was being backed up, but not at an offsite location. When a fire burnt down the entire building, all data was lost and the business was ultimately sold six months later.

Louie's IT company followed the RULE OF THREE as well, but his IT company also suggested that they take an image of the server. This image is essentially a snapshot of configurations, applications, data and more. Louie chose to decline this suggestion as an attempt to save money, and instead used a less expensive backup option. When their server crashed one day,

they experienced four days of no network, no emails, and no access to applications. Had they obtained an image of their server, it would have only taken a few hours to rebuild. The cost of lost productivity and client dissatisfaction far outweighed the cost of the imaging software.

The stories of Alex and Louie remind us that it is often better to take an "I'd rather be safe than sorry" approach. Besides a disaster recovery plan, a business continuity plan should also be in place. The overall objective of the plan is to effectively minimize the chances of disruption and, if there is one, to quickly implement the recovery and get the organization working again. Often, when business owners and CFO's contemplate business continuity planning, they concern themselves with the cost. However, there are many simple but important safety, security and business continuity measures that are cost effective and will still protect your business. If carefully thought out and properly designed, a contingency plan can include inexpensive disaster-avoidance measures that can be blended into the company's daily routine. More costly plans will provide quicker recovery and additional features, so please be sure to weigh the risks and rewards before settling on a plan.

Besides following the RULE OF THREE, here are some suggestions to consider in order to improve your planning:

- Consider imaging your server.
- Proactively review system logs for impending problems.
- Configure proper firewalls and use a quality router.
- Place servers and networking equipment on a UPS (uninterruptible power system).
- Use cloud-based spam filtering that can queue up/archive emails if a server goes down.
- Establish automated virus updates and daily scans.
- Utilize an anti-spyware program that is separate and distinct from your anti-virus program.
- Establish a password policy.

These steps are cost effective and will keep your business running smoothly, regardless of pending disasters.

I sometimes get accused of selling fear, but disasters and the aforementioned examples are real, so I prefer to think of it as educating people instead of scaring them. As a trusted I.T. professional, I urge you to be proactive instead of reactive, and take the time to learn now. And please, always ask yourself: "What would happen if...?"

Armando D'Accordo is a CMIT consultant and frequently writes for this journal on IT issues for accountants. You can locate him at www.cmitsolutions.com.

Nominating Petition

Candidates for 2011/2012 Nominating Committee

Three (3) candidates shall be elected from the General Membership to the Nominating Committee at the ANNUAL MEETING. The nominating petition (below) must be signed by at least 10 members and returned to the Secretary of the Corporation. Candidates shall not be members of the Board of Directors and shall not have served as members of the Nominating Committee this year. Further, two (2) nominees will be appointed from the Board of Directors, by the Board of Directors, for a total of five (5) elected positions on the Committee. There are also two (2) unelected non-voting members of the Nominating Committee comprising the Immediate Past President of the Conference and a member from the prior year's Nominating Committee designated by the prior year's Nominating Committee, both of whom shall act as advisors to the Committee.

To: Ed Caine, CPA; Secretary, NCCPAP, 22 Jericho Turnpike, Mineola, NY 11501

In accordance with Section 2 of Article XIII of the By-Laws, the undersigned hereby petition the National Conference of CPA Practitioners, Inc. to place in nomination:

NAME OF NOMINEE

NAME OF NOMINEE

as a member of the Nominating Committee to be elected at the 2010 Annual Meeting of Members. The undersigned hereby certify that the above named candidate has consented to serve if elected.

Name of Member Firm

Name of Member Firm

Signature of Partner/Shareholder/Owner

Signature of Partner/Shareholder/Owner

Name of Member Firm

Name of Member Firm

Signature of Partner/Shareholder/Owner

Signature of Partner/Shareholder/Owner

Name of Member Firm

Name of Member Firm

Signature of Partner/Shareholder/Owner

Signature of Partner/Shareholder/Owner

Name of Member Firm

Name of Member Firm

Signature of Partner/Shareholder/Owner

Signature of Partner/Shareholder/Owner

Profiles of the Candidates

LANA KUPFERSCHMID, CPA

Lana attended Queens College, Lehman College and Pace University to obtain her Bachelor of Science Degree and CPA license. She was employed by Haskin & Sells, CPA, USV Pharmaceutical and eventually became the Vice President/Controller for Matrix Corporation in Orangeburg, N.Y. In 1989 she started her own practice and attended her first NCCPAP meeting. "NCCPAP is the organization that helped me to grow my practice," she says. While serving as NCCPAP Director in the Westchester/Rockland Chapter, Lana pursued development of the New Jersey Chapter. On the National level, she was chair of the Membership Committee, Scholarship Committee and Forward Planning Committee and held positions as Treasurer, Secretary and Vice President.

Active in her community, she was the Treasurer of Temple Beth Sholom, Treasurer of Downtown New City Corp., President of the Tappan Zee Business and Professional Women Club, and President of the Mother of Twins Club.

Lana enjoys bicycle riding, hiking and traveling with her husband, Hank, in their motor home. Additionally, the four grandchildren living in Golden, Colorado keep her busy.

NEIL H. FISHMAN, CPA, CFE, FCPA, CAMS

Neil has been in practice since 1989. He is a graduate of the State University of New York College at Oneonta, and is licensed as a CPA in New York and Florida. He is a member of the NY State Society of CPAs, the Florida Institute of CPAs, the Association of Certified Fraud Examiners, the Association of Certified Anti-Money Laundering Specialists, the Forensic CPA Society, and NCCPAP, where he has served as Chairman of the National Tax Policy Committee (2008-2011), National Vice President (2009-2011), National Secretary (2008-09), and was the founding President of the South Florida Chapter.

Neil has authored several articles that have appeared in The CPA Journal, published by the NY State Society of CPAs; California CPA, published by the California Society of CPAs; and on the website of the Florida Institute of CPAs. In March 2005 Neil was a panelist on *taxtalktoday.tv*, a webcast run by the IRS, where the topic was "How the Bank Secrecy Act Affects You and Your Clients." Neil has also assisted in the drafting of tax legislation introduced in the U.S. House of Representatives.

EDWARD P. CAINE, MBA, CPA, CFF

Ed is a graduate of both Lehigh University and Temple University, with over 35 years of experience in management and accounting. His CPA practice, headquartered in Bryn Mawr, Pennsylvania, with other offices in Pottstown and Northern New Jersey, specializes in individual and corporate clients, general business consulting, and litigation support.

His background includes both public and private practice. He has served as the CFO, Director of HR and Director of IT of the JCC MetroWest, West Orange, New Jersey (the largest JCC in New Jersey and fourth largest in the U.S.) and was the Chief Administrative Officer of the Union for Reform Judaism

(URJ), with direct responsibility for administrating daily operations in 14 offices and 13 other sites in North America. Ed was CFO of a large accounts receivable management services corporation and a manufacturing firm. He spent eight years in commercial banking in credit, finance and accounting. He began his public accounting career in the small business groups at Arthur Andersen & Co and Deloitte & Touche.

Ed is a member of Beta Alpha Psi (the National Honorary Accounting Fraternity) and listed in Marquis' *Who's Who in America*. He serves on numerous boards including Golden Slipper and B'nai Zion, and is chair of Citizens Audit Review and Financial Advisory Committee (CARFAC) of Radnor Township. Ed is a member of both AICPA and PICPA. He is a Past President of the Temple University School of Business and Management Alumni Association and Main Line Reform Temple, Beth Elohim, Wynnewood, Pennsylvania. Ed is a past chair of the PICPA Business, Government and Education (BGE) committee. In 1997-98 he was appointed to serve on President Clinton's Roundtable on Race Relations.

DAVID ROTHFELD, CPA

David is a graduate of Adelphi University and holds both a BBA in Accounting and an MS in Accounting. His accounting practice is located in Hicksville, New York.

David was Treasurer of the ncCPAp Nassau/Suffolk Chapter for four years and currently is Office Operations Chairperson and a member of the Education, Insurance, and Budget committees of the chapter. He currently serves as a member of the National Board, Co-chair of the National Public Relations committee, and member of the Membership and Education Committees of National. He is also member of the NYSSCPA and the Financial Planning Association.

David resides in Massapequa, New York with his wife Ellen. He has two grown children and is a foster grandparent.

KENNETH HAUPTMAN, CPA

Ken obtained a BS in Economics, with a specialization in Accounting, in 1972 from Brooklyn College, and an MS in Taxation from LIU-C.W. Post in 1979. He has been practicing public accounting for over 40 years, initially with Lutz and Carr, CPAs, and as a partner with the firms of Weinick, Sanders & Co., CPA's and Hauptman, Elsner & Co., CPAs, prior to establishing his own CPA practice.

Ken is a member in good standing of the AICPA, the NY State Society of CPAs and NCCPAP, where he has served as Secretary of the Nassau/Suffolk Chapter in 2003-2005; a member of the Board of Directors in 2005-2008; Co-chairperson of the Nassau/Suffolk Chapter MAP committee in 2005-2007; and as a member of the Board of Directors of NCCPAP in 2009-2010. Ken currently serves as Treasurer of NCCPAP, as the Chairperson of the National MAP committee, as well as the Co-chairperson of the NY State Society of CPAs Nassau Chapter Small Firm MAP committee.

Ken resides in Old Bethpage with his wife Robyn. Ken and Robyn have three children and four grandchildren.

(continued on page 8)

LYNNE MARCUS, CPA, CFP

Lynne has a BA in Accounting from Queens College and an MBA in Finance from St. John's University. She completed the Certified Financial Planner program of the College for Financial Planning at Queens College; she also holds a General Securities License and is an Investment Advisor Representative with Ameriprise Financial, a member of the FINRA and SIPC.

Lynne began her accounting career with Price Waterhouse and Co. in their Small Business Department. She has worked in both large and small companies. Her experience includes banking, real estate, service and retail organizations.

In her current practice, in Great Neck, New York, and Palm Beach Gardens, Florida, she offers services including computerized accounting and bookkeeping, tax return preparation and tax planning, budgeting, estates, trusts, investment, insurance and retirement planning. Lynne was an Adjunct Professor at several New York and Florida universities, where she taught Accounting and Auditing courses. She was the Program Coordinator and taught the Certified Financial Planner Program and Foundation in Financial Planning in conjunction with the College for Financial Planning in Denver. She was also the 1992-1994 Chairperson for the NYS Society of CPAs-Nassau (NY) Chapter-Personal Financial Planning Committee.

SARAH JANSEN, CPA

Sarah has been in practice since 1992 and is currently on staff at Katz Bloom & Schon CPAs LLC. She was introduced to NCCPAP while on staff at Schoenfeld Mendelsohn & Co. prior to starting her own practice. Sarah is a member of NCCPAP and the AICPA. She is on the NCCPAP National Tax Committee and the Nassau Suffolk Chapter Nominating, Education, and Long Island Tax Symposium Committees. She has travelled to NCCPAP quarterly meetings in Washington, DC and Philadelphia, PA, in addition to assisting at monthly Chapter meetings.

Sarah has a BS in Accounting from C.W. Post College and an MS in Secondary Education from Hofstra University. She holds NY State Teaching Certifications in Business Education and Mathematics. Her work experience includes public and corporate accounting, and she has taught math and computer applications.

Sarah was elected and served as Trustee of the Incorporated Village of Bayville for two terms, including budget oversight responsibilities. She lives in Bayville, NY, with her husband, Michael, and their two children.

BRUCE BERKOWITZ, CPA

Bruce graduated from Brooklyn College in June of 1981 with a BS in Accounting. He became Certified in the State of New York in 1987 and was a partner in the firm Fein and Berkowitz, CPAs, from 1989 to 1999. In January 2000 he formed Bruce Berkowitz, CPA PC. Bruce has been a member of NCCPAP since 1989 and is completing his term as President of the NCCPAP Nassau/Suffolk Chapter.

Bruce resides in Bellmore, New York with his wife Sharon and their two daughters, Martie and Dana.

FRANK A. GALLO, CPA, MBA

Frank is the managing partner of Gallo & Company, CPAs LLP,

located in Jericho, New York. He is a graduate of Pace University, with an MBA in Public Accounting, and was a manager at Kenneth Leventhal and Company before he started his own practice in 1986.

Frank has been in public accounting for more than thirty years, and has expertise in audits, reviews, compilations, broker dealers, nonprofits, manufacturing, real estate, pension plans, construction and peer reviews.

He is a member of the NY State Society of CPAs and NCCPAP. He is also a member of the AICPA, Institute of Management Accountants and the National Society of Accountants. He serves on both the New York State Society of CPAs and NCCPAP peer review committees.

BARRY ZALK, CPA

Barry is a graduate of Northeastern University in Boston where he received his BS in Accounting in 1973. He has practiced public accounting for over 38 years.

Barry started his accounting career while in college, when he interned with various Boston accounting firms and Boston Gas Company. He also interned with J.K. Lasser and Company in New York City, where he also worked after graduating. In 1976 he joined an accounting practice with his father, where he continues as managing partner.

Barry is a Past President of the Nassau/Suffolk Chapter of NCCPAP and Chairperson of their Public Relations Committee. He is also the current Chairperson of National's Ethics Committee. He is a member of the NYSSCPA and the FICPA. He is certified in New York and Florida.

Barry resides in Greenlawn, New York, with his wife Lyn and has three daughters and a granddaughter.

RONALD C. TOCKMAN, CPA

Ronald C. Tockman is a graduate of Suffolk University, class of 1971. Ronn has been a practicing CPA in his own firm since 1975, servicing clients primarily in eastern Massachusetts, southern New Hampshire and the Rhode Island area.

He is a member of NCCPAP, the AICPA, and the Massachusetts Society of CPAs (MSCPA). He has served on the Federal Tax Committee of the MSCPA since 1979 and as the chairman of the Infoshare subcommittee for several years. Ronn has served on the Board of Directors of NCCPAP as National Secretary and as National Vice President. Ronn lectures on current tax topics for both continuing education courses for the MSCPA and to private groups on tax law updates.

Ronn lives in Stoughton, MA and has three adult children. He enjoys spending time with his five grandchildren, Hunter, Hannah, Aidan, Alex, and Dylan.

CASE STUDY: Will Sunk Costs Sink Jack? A Modern Fable

*by Harry Z. Davis, Ph.D., Professor-Stan Ross Department of Accounting,
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Abstract. Based on his readings in accounting and literature, Jack is a firm believer that sunk costs are irrelevant in decision making. He, and two colleagues, Terry and Robin, each make a decision which ignores sunk costs. Jill is not sure this is the right way to go. She senses that ignoring sunk costs can have strong negative consequences on a manager's career. This fable follows the decisions, and the consequences of the decisions, for each CEO.

Will Sunk Costs Sink Jack? A Modern Fable

Jill and Jack were planning a dinner to celebrate their separate appointments as CEO's.

"Let's invite Terry," Jill suggested. "Remember, Terry was in our class and also just became a CEO. Dom Perignon is on me."

"Great," answered Jack. "And let's invite Robin, who runs a very successful small business."

At the dinner, the conversation turned to data backup.

"Did you hear what happened to Sloppy Industries?" said Jill. "The VP was supposed to put a copy of the customer database in a fireproof safe every night, but he got lazy and started leaving it in his desk. Everything was going great until a fire destroyed their main headquarters, along with the whole database. They spent months trying to rebuild their customer and receivables database. It was an absolute disaster. The company ended up filing for Chapter 11."

Robin quoted Warren Buffett,¹ "Only when the tide goes out, do you discover who's been swimming naked." Everyone laughed.

"Wow, this Dom Perignon is really great," said Terry.

Jack told the story of a company he knew that had its computer system compromised by hackers. A disgruntled former employee helped a gang of cybercriminals hack into his former employer's computer system to vandalize it. Because of poor backup systems, the company suffered a multi-million dollar loss.

"Every business, large or small, really must have an ironclad backup system," said Robin. "In today's world we are so dependent on our computer systems that it is foolhardy not to have a great backup system. I just signed a contract with International Backup Machines. For \$500,000 they set up a backup system. For an annual fee of \$50,000 I am guaranteed that if anything happens, within 12 hours my company will be back on line using a computer system that is buried in some Colorado mountain range."

"I just took over as CEO, and one of the first things I checked was our computer backup system," said Terry. "Our former CEO, who was recently fired, had also signed a contract with IBM. It cost my company \$6,000,000 for the set-up, and we pay a \$500,000 annual fee, but I think it's worth every penny."

Jack chuckled. "I agree. The former CEO at my company did not take IT seriously. But one of my first acts as a new CEO was to sign a contract with IBM. I think it is a fiduciary duty to my shareholders to keep our data safe."

Jill looked very thoughtful. "Jill," Jack asked, "what are you doing about backup?"

Jill slowly answered, "When I became CEO, I also signed a contract just like Jack's and Terry's with IBM. Our costs are in that ballpark."

"So," Jack asked, "Why the thoughtful look?"

"Well," Jill answered, "I just heard that there are new companies that offer backup for much less money. All transactions are automatically backed up over the Internet. I had my staff start looking into these new types of backup services."

Jack, Robin and Terry were all ears. "Maybe we should all look into these new services and then get back and compare notes," Robin suggested.

Both Jack and Terry said that they would have their IT departments look into the new backup plans. Everyone agreed to meet in two weeks to compare results. Jack offered to pay for the Dom Perignon at the next dinner.

Two Weeks Later

Two weeks later, Jill, Jack, Terry and Robin met again. Everyone was excited.

Robin spoke first. "Jill, I really want to thank you for making me aware of this new backup technology. I found this company, Cloud Backup Computing, that can do our total backup over the Internet using a secure connection. Their set-up fee is \$20,000, and their annual fee is \$20,000. Our current contract with IBM is \$50,000 a year. That means if we switch, in the first year we will save \$10,000, and every year after that we will save \$30,000. For a small company like ours that is a lot of money. I am all set to cancel IBM, but I wanted to hear what you three found out."

"Cloud Backup Computing also has a contract for large companies like us," said Terry. "The set-up fee is \$200,000, and their annual fee is \$200,000. Our current contract with IBM is \$500,000 a year. So a switch will save us \$100,000 the first year, and \$300,000 every year after that. I am also very impressed with their \$100,000,000 performance bond. If they

(continued on page 10)

can't meet their obligations, they have posted a bond to cover any losses we might incur. I am all set to go with them."

"That makes three of us," said Jack. "This is a real no-brainer. Since we are saving money even the first year, I am all set to go ahead."

Jill was strangely silent. "Hey, Jill, what is your take on the situation?"

Jill thought awhile and said, "But what about the \$6,000,000 we paid IBM? If we drop IBM and switch to CBC, it turns out we wasted \$6,000,000. How will this look to my board?"

Terry and Robin both said simultaneously, "But that makes no sense. The money you spent is already spent; you can't do anything about that. You have to look at the future cost, and if you switch your future cost will be lower."

Jack chimed in, "I'm really surprised at you Jill. Someone as brilliant as you, who could figure out how to artificially inflate both our ROI's,ⁱⁱ doesn't know that sunk costs are irrelevant? I remember every accounting and economics professor telling me that sunk costs happened, and therefore, they can always be ignored in any decision."

Jill thoughtfully looked at the swirling Dom Perignon in her glass. "Something really bothers me about that \$6,000,000 waste."

"But," suggested Terry, "you are just throwing good money after bad money. Instead of spending \$500,000 a year from now on, you could be spending \$400,000 the first year and \$200,000 every year after. So you are spending an extra \$100,000 this year and an extra \$300,000 next year, all good money, because you spent \$6,000,000 which is gone."

"You are falling into the Concorde fallacy trap," said Robin. "When Air France and British Airways started working on the Concorde, they estimated development costs of about £160 million. They got the British and French governments to fund the development. Unfortunately for the governments, development ended up costing over 700% times the initial estimate. The governments never recovered a single penny of the development costs. Instead of looking at future costs and killing the Concorde, they kept looking at past costs, and worried about wasting all that money. Then, throwing more good money after bad, they produced 16 planes which cost the governments £654 million, and which they sold for £278 million. Believe it or not, they couldn't sell the last five planes they produced to any airline, so they sold them to Air France and British Airways for 1 French franc and £1. Finally, to add insult to injury, the two governments had to subsidize the operating costs of Concorde to the tune of tens of millions of pounds per year.ⁱⁱⁱ This 'commercial disaster' happened, and they kept the project alive, because they wouldn't ignore the past costs."

"This can happen in America also," said Jack. "Both Larry O. Welch, the US Air Force Chief of Staff, and Les Aspin, chairman of the House Armed Services Committee, argued that the US government couldn't cancel the B-2 bomber because they had already invested \$17 billion dollars that would be lost if they cancel.^{iv}"

"You know," Terry quipped, "in the Soviet Union, the minister of atomic energy wouldn't agree to safely dispose of their plutonium. Why? Because, he argued, they had spent so much

money to make the plutonium, and it would all go to waste if they disposed of the plutonium.^v"

Everyone laughed.

Jill was very slow in responding. "I understand what you are all saying. And I can see why you, Robin and Terry, should make the switch. But my intuition says that neither Jack nor I should make the switch. I really have to think about it more before I can articulate why."

"Let's end on a happy note by finishing this Magnum of Dom Perignon," said Jack. "I am cancelling my contract tomorrow."

"So am I," said Robin. "I can use the money I save to launch a new product line."

"I'm also cancelling," said Terry. "I feel it is my ethical obligation to my shareholders."

"I'm going to just enjoy the delicious bubbly," said Jill.

Robin's Board of Directors Meeting

Since Robin owned 70% of the stock, the Board of Directors meeting was just a formality. Robin explained that the switch from IBM to CBC would save the company \$10,000 in the first year, and \$30,000 every year after that. The announcement was followed by a short round of applause.

Terry's Board of Directors Meeting

After some brief introductory remarks, one board member, Regan, who had an excellent background in accounting, asked sharply, "Terry, can you explain this write-off of \$6,000,000 last month? It will really hurt our quarterly earnings."

Terry looked at Regan carefully, and answered, "That is an excellent question. I thought about this long and hard before I made the decision, but I think you will all agree with me that it is the correct decision."

"First some background. As you all know, our former CEO made some really unfortunate decisions. One of the last things he did was sign a contract with International Backup Machines to handle the total backup of our data. Although the concern for backing up was a wise decision, and IBM is a good company, the system they sold us was obsolete. They installed a lot of hardware and software for us, charged us \$6,000,000, and are charging us \$500,000 annually to maintain the system. Since we are amortizing the installation cost over four years, our depreciation is \$1,500,000 a year. Add that to IBM's annual \$500,000 fee and we have a \$2,000,000 annual expense."

"When I took over, I had my staff look into backup. It turns out that rather than having our entire backup on site, it is much less expensive to have everything off site. This way we don't need to maintain the hardware and the software. I found a company, Cloud Backup Computing, that will give us the equivalent backup as IBM for less than half IBM's charge."

"Let me put up some slides."

	CBC	IBM	Difference
This Year	\$ 6,250,000	\$ 2,000,000	\$ 4,250,000
Next Year	250,000	2,000,000	(1,750,000)
3rd Year	250,000	2,000,000	(1,750,000)
4th year	250,000	2,000,000	(1,750,000)
Total	\$ 7,000,000	\$ 8,000,000	\$ (1,000,000)

"Slide 1 shows that if we stay with IBM, our expense will be

\$2,000,000 annually, or \$8,000,000 for the next four years. If we switch to CBC, this year we will have to write off the \$6,000,000 we spent with IBM, and for the next four years our expense will be \$250,000 annually; \$50,000 annual depreciation cost for installing the \$200,000 CBC system, plus their annual fee of \$200,000.”

“In summary, before taxes, we take a hit to earnings this year of \$4,250,000, but then over the next three years, our expenses will be less by \$1,750,000 annually. Over the four year total, we decrease our total expenses \$1,000,000 by dropping IBM.”

“Another important factor is that, since our former CEO was just terminated, now is a good time to take a big bath.^{vi} As the saying goes, “Out with the old, and in with the new.” The market will be very happy seeing our expenses drop in the next three years by almost \$2,000,000 a year.”

“Most important though is our cash flow.”

	CBC	IBM	Difference
This Year	\$ 400,000	\$ 500,000	\$ (100,000)
Next Year	200,000	500,000	(300,000)
3rd Year	200,000	500,000	(300,000)
4th year	200,000	500,000	(300,000)
Total	\$ 1,000,000	\$ 2,000,000	\$ (1,000,000)

“The switch to CBC increases our cash flow \$100,000 this year, and \$300,000 annually for the next 3 years after that. Yet, our investment is \$0 cash. This is especially welcome, with the current freeze up in the finance markets.”

Even Regan, who usually was skeptical of CEO’s, was impressed.

Jack’s Board of Directors Meeting

Regan was on the Board of both Terry’s and Jack’s company. Jack’s Board meeting started out the same as Terry’s. Jack explained why the switch to CBC would increase income over the four-year period and increase cash flow in each year. Unfortunately, the meeting quickly took a sharp turn for the worse. Regan was prepared with a set of slides.

	Jack’s Folly	Intelligent	Difference
This Year	\$ 6,250,000	\$ 250,000	\$ 6,000,000
Next Year	250,000	250,000	-
3rd Year	250,000	250,000	-
4th year	250,000	250,000	-
Total	\$ 7,000,000	\$ 1,000,000	\$ 6,000,000

“Jack, you’re the one who signed this contract with IBM, so in your honor, I named the column describing your plan of action, ‘Jack’s Folly.’ In the second column, I present what things would look like with a more intelligent CEO who originally signed up with CBC. I named this column ‘Intelligent.’ Note that Jack’s Folly cost us \$6,000,000 in income this year.”

“More important is the cash flow.”

	Jack’s Folly	Intelligent	Difference
This Year	\$ 6,400,000	\$ 400,000	\$ 6,000,000
Next Year	200,000	200,000	-
3rd Year	200,000	200,000	-
4th year	200,000	200,000	-
Total	\$ 7,000,000	\$ 1,000,000	\$ 6,000,000

“Jack’s Folly cost \$6,000,000 in cash flow this year, which will cost us a small fortune to refinance. It may even lower our credit rating.”

Jack was stunned. “But ¼ but the \$6,000,000 is a sunk cost,” he protested weakly, “and sunk costs should never be used in decision making.”

Regan came in for the kill. “Jack, there is an old saying;^{vii} ‘A little learning is a dangerous thing.’ Someone else’s fixed cost is irrelevant. But, if you incur a fixed cost, you are responsible for it. This board doesn’t micromanage your decisions. We don’t have full information on the options facing you when you make a decision. Since you have only been with this company for a short time, we have not been able to directly observe your track record. But when you incur a cost, and then proceed to write it off, you are signaling your lack of foresight to us. You should never have signed the contract with IBM before checking into lower cost alternatives.”

Jill’s Board of Directors Meeting

Jill spent quite a bit of time thinking about what would happen at her board meeting. If any director was familiar with the new backup technology, she could be in a very uncomfortable position defending the IBM contract.

First, she had CBC draw up a contract outlining all their services and committing them to a four-year contract. Then she called in the IBM salesman. The meeting was short. As soon as the IBM salesman saw a copy of the CBC contract, he realized that his future commission from Jill’s company was on thin ice. He also realized that if Jill dropped IBM for backup, she might drop all the other IBM services. Jill’s company was a large account. “I will get back to you within 48 hours,” was his parting promise.

True to his word, two days later the IBM salesman was back in Jill’s office. “You are a tough negotiator,” he said with a forced smile.

Jill felt complimented.

“Your account is important to us. My manager and I looked over the figures, and we are willing to match CBC’s price. Instead of charging you \$500,000 annually we will cut the fee to \$200,000 annually. Furthermore, if you switch to CBC you will have to pay them a \$200,000 set-up fee. But if you stay with IBM, you save yourself \$200,000.” Jill smiled her Cheshire cat smile.

At Jill’s board meeting, one of the directors brought up the topic of Internet backup. Jill confidentially assured everyone that she had looked into it carefully, had considered it, but instead of switching, had gotten IBM to cut their service fees by 60% to match the equivalent contract for Internet backup. “And,” Jill finished up, “by staying with IBM, we even save money, because we don’t have to pay the \$200,000 installation fee for installing Internet backup.”

A few weeks later

The next dinner of the four friends, was very subdued. Everyone sympathized with Jack, and promised to be on the lookout for any job opportunities. As the dinner ended, Jack sadly looked at his glass of Dom Perignon and said contemplatively, “I never should have brought my Board’s attention to the

(continued on page 12)

CASE STUDY: Will Sunk Costs Sink Jack? (continued from page 11)

\$6,000,000 by writing it off. I should have followed Jill's lead."

Everyone was silently sympathetic.

"I always thought that nobody ever got fired for buying IBM equipment; but those sunk costs really sank me."

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ⁱ http://www.brainyquote.com/quotes/authors/w/warren_buf-fett.html

ⁱⁱ See "Free Lunches and ROI: A Modern Fable," Davis, Appel and Cohn, 2008

ⁱⁱⁱ <http://www.aerospaceweb.org/question/planes/q0186.shtml>

^{iv} Quoted in Hornigren p.266

^v Quoted in Hornigren p.266

^{vi} Even Wikipedia (January 2010) has an entry for Big Bath

^{vii} Alexander Pope, *An Essay on Criticism*, 1711

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CHAPTERS' CALENDAR OF EVENTS**SEPTEMBER / OCTOBER / NOVEMBER 2011****NASSAU / SUFFOLK, NEW YORK**

Contact: Chapter Office (516) 997-9500

Chapter Meetings:

Registration & Buffet Dinner – 5:30 p.m.; Seminar – 7:00 p.m.

Holiday Inn of Plainview, 215 Sunnyside Blvd., Plainview
(exit 46 off the L.I.E.)

Thursday, September 8, Chapter Meeting

WORKERS' COMP UPDATE – 2 CPE credits (Tax)

Wednesday, September 21, 8 a.m. – 10 a.m.

BREAKING UP IS HARD TO DO! Dismissing a Client, From Beginning to End – 2 CPE credits (MAP)

On Parade Diner, 7980 Jericho Tpke. Woodbury

Thursday, October 6, Chapter Meeting

COMPILATIONS & REVIEW – 2 CPE credits (A & A)

Wednesday, November 2, 8 a.m. – 10 a.m.

HELP, I'VE FALLEN & I CAN'T GET UP! It's More Than Just Succession Planning! – 2 CPE credits (MAP)

On Parade Diner, 7980 Jericho Tpke. Woodbury

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Thursday, September 22

NEW YORK STATE TAXES – 2 CPE credits

Thursday, October 20

GETTING READY FOR TAX SEASON – 2 CPE credits

Thursday, November 17

FEES AND COLLECTIONS – 2 CPE credits

PHILADELPHIA GROUP EVENTS

Call 888-488-5400 for information.

September 13 – **PA ACT 32 – OVERVIEW & COMPLIANCE** – 2 CPE credits (Tax)

October 11 – **IRS UPDATE INCLUDING CIRCULAR 230** – 2 CPE credits (Tax)

November: To be announced.

WESTCHESTER/ROCKLAND, NEW YORK

Contact: Chapter Office (914) 708-9404

DoubleTree Hotel, 455 South Broadway, Tarrytown

Tuesday, September 13, 9 a.m. – 5 p.m.

A & A and COMPILATION & REVIEW – 8 CPE credits

Tuesday, October 18, 7:30 a.m. – 9 a.m.

FOREIGN TAX ISSUES – 2 CPE credits

Tuesday, October 25, 7:30 7:30 a.m. – 9 a.m.

PARTNERSHIP ISSUES – 2 CPE credits

Tuesday, November 8, 9 a.m. – 5 p.m.

CORPORATIONS, LLCs, PARTNERSHIPS – 8 CPE credits

NEW JERSEY

Contact: Fred Bachmann, CPA (973) 377-2009

E-mail: bachmanncpa@msn.com

Victor's Maywood Inn, 122-124 West Pleasant Ave, Maywood
Phone (201) 843-8022; E-mail: www.maywoodinn.com
6–8 p.m. – Dinner and Seminar

Monday, September 12 – To be announced – 2 CPE Credits

Monday, October 3 – To be announced – 2 CPE Credits

Monday, November 7 – To be announced – 2 CPE Credits

FLORIDA

Contact: Neil Fishman (561) 369-3228

New Meeting Location: Cypress Creek Country Club,
9400 Military Trail, Boynton Beach
8:45 a.m. – 10:45 a.m., Registration 8:30 a.m.

Thursday, September 8

PENSIONS – 2 CPE credits

Thursday, October 6

IRS – 2 CPE credits

Thursday, November 3

BUSINESS SUCCESSION PLANNING – 2 CPE credits

MASSACHUSETTS

Contact: Ronald Tockman, CPA (781) 341-2400

or Jeffrey Winer, CPA (508) 879-0408

Sheraton Needham Hotel, 100 Cabot Street, Needham, Mass.

September: To be announced

Wednesday, October 5, 7:30 a.m. – 9:30 a.m.

HAVE YOUR CAKE AND EAT IT, TOO – 2 CPE credits

Thursday, November 17, 8 a.m. – 5 p.m.

MA TAX UPDATE/LLC/I 040 UPDATE – 8 CPE credits
ADP, 225 Second Avenue, Waltham

HOUSTON

Call for Information: (888) 488-5400



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2011 LONG ISLAND TAX PROFESSIONALS SYMPOSIUM



**Wednesday, November 16 • Thursday, November 17
 Friday, November 18**

Crest Hollow Country Club, Jericho Turnpike, Woodbury, N.Y.

www.litps.org

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- Developing new niches
- Creating a partnership document
- Partner accountability
- Creating a strategic plan
- Retreat facilitation

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